



COMMISSION NEWS

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TO: EDITORS, NEWS DIRECTORS
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COMMISSION ISSUES "DIRTY DOZEN" LIST OF INVESTOR TRAPS DURING SAVING & INVESTING MONTH

PHOENIX – April is Saving & Investing Month, a time when the Arizona Corporation Commission places increased emphasis on investor education to help protect investors from scams and schemes. The Commission today outlined the 12 most common ways Arizonans are likely to be trapped when investing in 2006.

"Through the schemes on this laundry list, people are being taken to the cleaners," Chairman Jeff Hatch-Miller said. "Investment scams can be devastating for the investor who falls victim, both financially and emotionally. Scams come in many disguises, but they all share a common goal of separating victims from their money. As regulators, we are especially concerned that as the first of the Baby Boomers turn 60 this year they not become trapped in bad investments as their retirement nears."

Commissioner Mike Gleason urged investors to ask the following questions before making any investment: Are the seller and investment licensed and registered in your state? Has the seller given you written information that fully explains the investment? Are claims made about the investment realistic? Does the investment meet your personal investment goals?

Commissioner Bill Mundell urged investors to also contact their state securities regulator with any questions about an investment product, broker or adviser, before making an investment. "One telephone call can save a lot of money and misery," Commissioner Mundell said.

"Con artists go where the money is," Commissioner Marc Spitzer said. "Retirees are perceived to have

ripe nest eggs and are concerned about stretching their incomes to meet future needs. This makes Arizona's many retirees the perfect target for swindlers. We need all investors, especially retirees, to be wary and to ask the right questions. Our Securities Division stands ready to help."

While the traps below are listed alphabetically, Commissioner Kristin Mayes identified real estate investment contracts and oil and gas investment fraud as the greatest potential threats to Arizona investors this year. "With our rising real estate prices, open spaces and growing senior population, con artists and unscrupulous promoters view Arizona as the 'land of opportunity' for these types of scams and risky investment propositions."

Affinity Fraud. Con artists frequently target members of closely knit religious, political, or ethnic groups. Their pitch is essentially, "since I am like you and believe like you, you can believe in me and in what I say." When an investment is presented in this context, investors should be extremely wary. This pitch seeks to substitute an emotional appeal for careful analysis and critical thought. For an example, click on: <http://www.azinvestor.gov/news/2003/sept19b-03.pdf> and view the news release on Douglas Sanchez, a Mesa pastor who swindled members of his church. In 2005, Sanchez pled guilty to nine counts of theft, fraud and illegal control of an enterprise. He was sentenced to 12.5 years behind bars, plus probation. A Maricopa County Superior Court Judge also ordered Sanchez to pay restitution of \$1,165,345.

Dishonest and Unethical Financial Professionals. Although most financial professionals are honest, some do make mistakes or worse yet, take advantage of your trust. It may start with having you sign a blank account form that the salesperson fills in later to his or her advantage. Unscrupulous professionals primarily focus on lining their own pockets by generating excessive commissions or forging your signature in order to take your money. For an example, click on: <http://www.azinvestor.gov/News/2005/dec05-05.pdf> and view the news release on Michael R. Brooks, a former registered securities salesman who took a client's money and used it to pay for his personal expenses.

High-Interest Promissory Notes. Generally, the higher the return promised, the greater the risk to your money. A track record of paying high interest and repaying principal is not an assurance that

you will get your money back if the company fails. These notes are not suitable for retirement funds. For an example, click on: <http://www.azinvestor.gov/News/2004/oct15-04.pdf> and see the news release on Rex Kuhn, a Mesa man who sold to investors unregistered promissory notes that promised above-market returns with little risk.

Investments Secured by Insurance. Most people are familiar with the secure feeling that an insurance policy can provide for their home, health and automobile in light of a possible financial loss. Con artists and unscrupulous promoters may capitalize on this notion and offer investments with the same guarantees. The investor should not rely on verbal and written statements provided by the promoter and should verify these claims with regulators. For an example, click on <http://www.azinvestor.gov/News/2005/nov04-05.pdf> and view the news release on Brixon Group, Ltd. et al, a Mesa company that fraudulently offered and sold unregistered investment contracts, assuring investors that their money was “secured” by an insurance policy.

Oil and Gas Investment Fraud. High oil prices mean oil and gas scams will continue to attract victims. Oil and gas deals are complicated investments that generally require a significant investment, often requiring a minimum deposit of thousands of dollars. Increasingly, these deals are being pushed on the Internet with claims of attractive tax advantages. Sales materials with “official-looking” surveyor maps and “geologist” opinion letters touting the likelihood that the “managers” of the drilling enterprise will hit pay dirt are sent regularly to prospective investors. The targeted investors are usually too far away to check on the region being “prospected.” These deals are highly risky, but the lure of high profits often proves irresistible to investors. For an example, click on: <http://www.azinvestor.gov/News/2006/mar02a-06.pdf> and view the news release on Mid-America Energy et al, a company charged with fraudulently promoting a Kentucky oil and gas investment.

Personal Information Scams. The first step in separating a victim from his or her money is convincing the victim to divulge personal financial information. When the sales agent is a local tax preparer or insurance agent, he or she enjoys a position of trust in the community. But these professionals can betray that trust to take advantage of unwary investors. Con artists frequently adopt a pretext of preparing a “living will” or a “living trust” to gain useful asset information. Insurance and securities regulators also worry about people who offer to help senior citizens qualify for

prescription benefits by preparing forms. In the guise of filling out forms, the con artist may ask unnecessary questions about personal financial assets. To the unscrupulous promoter, this information provides a wedge into someone's wallet. For an example, click on:

<http://www.azinvestor.gov/News/2004/jan30b-04.pdf> and view the news release on Chris Rutland, a Tucson man who gained access to a woman's accounts and depleted her funds while in the process of preparing her tax returns.

Prime Bank Schemes. These schemes often promise high-yield, tax-free returns that are said to result from "off-shore trades of bank debentures." Investors are told that only very wealthy people can get the benefit of these programs but the promoter is able to make it available to the victim. Sometimes the victim is required to execute a "confidentiality agreement" in order to invest and is told not to consult an attorney, accountant or financial planner because they keep these programs for the "big boys" and will deny that they exist. There are no such programs, no such debentures and no such high-yield trades. These prime bank schemes are the securities equivalent of a purse snatching. Once the seller has your money, it's gone "off shore" and is difficult to retrieve. For an example, click on: <http://www.azinvestor.gov/news/2002/sept27-02.pdf> and view the news release on M-Corp International and its promoters who promised investors triple-digit returns, claiming their money was safely held in bank certificates of deposit while the funds were traded in foreign banks.

Real Estate Investment Contracts. Rising property values can attract investors who view real estate as a "sure thing," one that has little downside risk with the potential of substantial returns. Promoters capitalizing on this mindset can create real estate investment opportunities that sometimes become subject to the full weight of state securities regulation, including registration requirements and antifraud rules. For an example, click on: <http://www.azinvestor.gov/News/2006/feb03-06.pdf> and view the news release on Bruce R. Goldman who enticed investors by telling them that his real estate activities had generated profits, but the property transactions did not occur and he and his companies did not own the land.

Sale and Leaseback Contracts. In an attempt to avoid the investor protections of securities laws, some investments are structured to resemble the sale of a piece of equipment such as a payphone, ATM machine or Internet booth located at a remote venue where the investor cannot service and

maintain the equipment and must enter into a servicing agreement. In order to make the deal more attractive, investors are told that after a given period the equipment can be sold back to the seller at the investor's original purchase price. The investor is also promised a specific rate of return. Frequently, the equipment or property does not exist and the seller lacks the financial capacity to keep the promise of repurchase. For an example, click on:

<http://www.azinvestor.gov/News/2005/Feb15-05.pdf> and view the news release on M.A.C.

Investments, a Tempe-based company accused of fraudulently offering and selling investments in automatic teller machines.

Senior Specialists. Individuals calling themselves “senior specialists” and other designations can create a false sense of security among investors. In some cases, these special designations consist of training that involves nothing more than marketing techniques and sales tips for certain investment products being targeted to seniors. In fact, the individuals touting these investments may not be properly licensed to sell securities or give financial advice at all. For more information, click <http://www.azinvestor.gov/News/2005/dec14-05.pdf> and view the investor alert on this topic.

Unsuitable Recommendations. Just as every investor is different, so too are investments. What may be a suitable investment for one investor may not be right for another. Securities professionals must know their customers' financial situations and refrain from making recommendations of securities that they have reason to believe are unsuitable. When securities professionals fail to live up to applicable ethical standards, great harm can be done to individual investors. For an example, click on: <http://www.azinvestor.gov/news/2003/dec23-03.pdf> and view the news release on Phillip Merrill, a securities salesman who invested an unreasonable percentage of an elderly woman's portfolio in a high-yield, “junk bond” fund, an investment with high risk.

Variable Annuities. Variable annuities are tax-deferred investments typically placed in mutual funds that provide investors with periodic payments plus a death benefit. While these products are legitimate investments, regulators are concerned about their popularity in the sales community. Commissions to those who sell variable annuities are very high, providing the incentive for sellers to engage in inappropriate sales. The steep penalties for early withdrawals, known as “surrender charges,” also make variable annuities unsuitable for short-term investors. Be wary of any

salesperson who wants to sell you a variable annuity to hold inside a 401(k) or IRA. You are already getting tax-deferred growth in an IRA or a 401(k), so the variable annuity may add a layer of cost with no additional tax benefit. For an example, click on: <http://www.azinvestor.gov/News/2005/oct20-05.pdf> and view the news release on Waddell & Reed, a firm that agreed to pay penalties and return funds to investors who were financially harmed as a result of unsuitable variable annuity transactions.

For additional information on these and other investor traps, visit the Commission's investor education website, www.azinvestor.gov, and click on "**Hot off the Presses**" for the latest news releases. Most importantly, contact the Commission's Securities Division to verify that both the seller and investment are registered. Entrusting your money with someone for investment purposes, while expecting a profit through the efforts of others, may involve a security and sales agents/dealers subject to registration. **VERIFY BEFORE YOU BUY!** Contact the Commission's Securities Division, (602) 542-4242 or toll free at 1-(866) VERIFY-9.

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